

Message Text

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ACTION EUR-12

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FM AMEMBASSY VIENNA

TO SECSTATE WASHDC 7673

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION USEC BRUSSELS

USMISSION OECD PARIS

UNCLAS VIENNA 0747

STATE PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN, AU

SUBJ: AUSTRIAN NATIONAL BANK LOWERS BANK RATE--

MONETARY STABILIZATION MEASURES EXTENDED

REF: VIENNA 0333

1. SUMMARY. IN CONJUNCTION WITH GOA'S RECENTLY DISCUSSED PROGRAM FOR STIMULATING THE ECONOMY IN 1976, AUSTRIAN NATIONAL BANK (ANB) HAS REDUCED CENTRAL BANK RATE AND INTEREST RATES ON COLLATERAL LOANS. ANB ALSO EXTENDED TIME PERIOD DURING WHICH IT WILL PERMIT COMMERCIAL BANKS TO REDISCOUNT INCREASED AMOUNTS OF EXPORT PROMOTION PAPER.

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CREDIT RESTRICTIONS EXTENDED IN MODIFIED FORM. END SUMMARY.

2. ON JAN 22, 1976, AUSTRIAN NATIONAL BANK ANNOUNCED LOWERING OF CENTRAL BANK RATE BY ONE PERCENTAGE POINT FROM 6.0 PERCENT (IN EFFECT SINCE APRIL 23, 1975) TO 5.0 PERCENT. IN ADDITION, ANB REDUCED INTEREST ON LOANS IT EXTENDS TO BANKS AGAINST COLLATERAL FROM 6.5 PERCENT TO 5.5 PERCENT PER ANNUM. BOTH MEASURES TOOK EFFECT ON JAN 23.

3. ANB FACILITY ALLOWING BANKS TO REDISCOUNT UP TO AS 1 BILLION (\$54 MILLION) OF GOVERNMENT-GUARANTEED EXPORT PROMOTION PAPER ("EXPORTFOERDERUNGSWECHSEL") IN EXCESS OF THEIR REGULAR QUOTAS WAS EXTENDED THROUGH DEC 31, 1976. THIS FACILITY HAD BEEN SCHEDULED TO EXPIRE ON APRIL 30, 1976.

4. ABOVE ANB ACTIONS ARE CONSISTENT WITH ITS EARLIER ANNOUNCED INTENTION TO PURSUE AN EASIER AND MORE FLEXIBLE MONETARY POLICY AS AN ELEMENT IN SO-CALLED PHASE VII OF GOA'S ECONOMIC STABILIZATION PROGRAM OF 1972, IN EFFECT FIRST SIX MONTHS OF 1976. DURING THAT PERIOD CREDIT EXPANSION WILL CONTINUE TO BE LIMITED TO 1 PERCENT PER MONTH BUT DEFAULTS WILL NOT BE PENALIZED FOR TIME BEING. CREDIT EXPANSION LIMIT IS PRESENTLY ONLY THEORETICAL, HOWEVER, SINCE ACTUAL CREDIT DEMAND IS LAGGING FAR BEHIND PERMISSIBLE CEILINGS. RECENT ANB STEPS TO RELIBERALIZE INTERNATIONAL CAPITAL MOVEMENTS WILL BE REPORTED SEPARATELY.

5. ANB ACTIONS ARE ALSO INTENDED TO BRING ITS INTEREST RATES MORE IN LINE WITH THE GENERALLY DOWNWARD TREND IN INTEREST RATES, BOTH LOCALLY AND ABROAD. (SHORT-TERM CALL MONEY IS CURRENTLY AVAILABLE HERE AT 4.25 PERCENT COMPARED WITH 6.25 PERCENT 9 MONTHS AGO.)

6. COMMENT: BUSINESS CIRCLES WOULD HAVE PREFERRED AN EVEN DEEPER CUT IN THE CENTRAL BANK RATE WHICH IN THEIR VIEW WOULD THEN BE REFLECTED IN A FURTHER LOWERING OF CREDIT COSTS. A FURTHER SUBSTANTIAL REDUCTION IN CREDIT COSTS SEEMS UNLIKELY, HOWEVER, AS LONG AS THE GOVERNMENT-CONTROLLED BASIC DEPOSIT INTEREST RATE WHICH BANKS MUST PAY REMAINS AT 5 PERCENT. PERSISTENT GOA FEARS OF A REKINDLING OF INFLATION MAKES IT UNLIKELY THAT DEPOSIT

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RATES WILL BE LOWERED ANYTIME SOON. GIVEN CURRENT LEVELS OF BANK LIQUIDITY HERE, COMMERCIAL BANKS HAVE LITTLE PRESENT NEED FOR ANB LENDING OR REDISCOUNTING FACILITIES. AS A RESULT, EMBASSY BELIEVES THAT RECENT ANB ACTIONS WILL, BY THEMSELVES, HAVE LITTLE TANGIBLE EFFECT ON PREVAILING COMMERCIAL INTEREST RATES.BUCHANAN

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